

**Before the
Federal Communications Commission
Washington, D.C. 20544**

In the Matter of)	
)	
Federal-State Joint Board on)	CC Docket No. 96-45
Universal Service)	

**REPLY COMMENTS OF TEXAS STATEWIDE
TELEPHONE COOPERATIVE, INC.**

Texas Statewide Telephone Cooperative, Inc. (“TSTCI”) an association representing 35 small, rural telephone companies and cooperatives in Texas (see Attachment 1) files these reply comments relating to high-cost universal service support.

TSTCI would like to respond to the comments by several parties relating to the high cost universal service fund and the use of forward-looking economic costs to determine universal service support for the small, rural incumbent local exchange companies (“ILECs”).

Nextel Communications (“Nextel”) suggests that the Joint Board should focus high cost fund growth on the “...drain rural ILECs are placing on the fund, including their use of USF funding to rebuild rural circuit switched networks to provide advanced services.”¹ Nextel states that universal service high cost support to ILECs increased over \$1 billion from 2000 to 2003, and that this increase is related to providing advanced services.² Nextel completely ignores the fact that the so-called “drain” ILECs are placing on the fund is due in large part to the Commission’s decisions to reduce access rates charged to long distance carriers and require local exchange carriers to recover costs previously recovered by access charges (e.g., ICLS), in part, through the universal service fund. Nextel offers no evidence that the increase in the total high cost universal service support amount is due to advanced services rather than the upgrades and maintenance of the network necessary for continued high quality provisioning of basic local services. In Texas and in many other jurisdictions ILECs are required to meet certain quality of service standards as well as to be the provider of last resort. Universal service support for high-cost loop payments are made to ILECs based upon embedded costs of loop plant. In fact, broadband investment is not considered in loop plant when determining high cost support.

¹ Comments of Nextel Communications, Inc. and Nextel Partners, Inc. CC Docket No. 96-45, May 5, 2003, page i.

² Ibid., page 8.

Nextel claims that ILECs do not want competitive eligible telecommunications carriers, (“CETCs”), particularly CMRS carriers, to receive USF support for their network build-outs. This is not true. TSTCI has stated that it does not oppose a CETC receiving universal service support if it has been determined to be in the public interest; however, TSTCI contends that a CETC should receive support based upon their own investment, rather than the rural ILEC’s investment. Rural ILECs are required to justify their support needs, and TSTCI contends that CETCs should be required to do the same. While investments between ILECs and competitive landline carriers differ, the capital requirements of wireless carriers and landline carriers differ significantly. Western Wireless’ comments support this statement: “One of the primary economic advantages of wireless telecommunications services is the comparatively low level of capital investment required to initiate service when compared to traditional landline services.”³ Given the fundamental differences between wireless and landline capital requirements, providing universal service to wireless CETCs based upon an ILEC’s costs creates a competitive advantage for these CETCs.

Nextel further states that ILECs should defray capital and operating expenses by increasing basic service rates that have been “artificially depressed for many years.”⁴ Surely Nextel must realize that any “artificial depression” in rural customer basic service rates is a direct result of the congressional mandate that consumers in rural high cost areas have access to services that are reasonably comparable to services provided in urban areas and at rates that are reasonably comparable to rates charged for similar services in urban areas.⁵

In addition, basic local service rates in Texas are regulated by the Texas Public Utility Commission (“PUC”), and the rural ILECs’ ability to increase basic service rates is subject to Texas PUC rules. Sprint Corporation suggests that the Commission adopt a minimum price for local service as a condition for receiving federal universal service support. Sprint Corporation believes that this would “...facilitate competitive entry in rural areas because incumbent ETCs would begin charging prices that are closer to their cost of service.”⁶ Aside from the jurisdictional preemption issue of federal authority to set rates for intrastate services, while a “minimum price” may on its face sound reasonable, given the great disparity in costs in rural

³ Comments of Western Wireless Corporation, May 5, 2003, CC Docket No. 96-45, Attachment G, page 2.

⁴ Comments of Nextel Communications, Inc. and Nextel Partners, Inc. May 5, 2003, CC Docket No. 96-45, page 9.

⁵ The Federal Telecommunications Act of 1996, Section 254(b)(3).

⁶ Sprint’s Joint Board Comments, May 5, 2003, CC Docket No 96-45, page 15-16.

areas, as well as disparity in other factors that might determine an affordable rate, it does not seem feasible for the Commission to determine a minimum price for basic local service. For instance, the costs of basic telephone service vary greatly by rural ILEC depending upon the average length of haul of a local loop as well as the population density and topography to name a few factors. Another factor that should be considered before a minimum rate determination is made is the disparity across the country when comparing rates between a given rural area and urban area for comparable services. There are literally thousands of such comparisons, and the differences in the price charged in one rural area versus another rural area might be perfectly legitimate based upon considerations unique to that geographic area, such as calling scopes and income levels. It will be difficult for the Commission to determine a minimum rate for rural areas.

If rural customers were required to pay for basic local service without the benefit of universal service support mechanisms, rates in rural areas would certainly become unaffordable, given the greater costs to provide service to less densely populated areas of the country. According to the National Exchange Carriers Association (“NECA”), since 1994 end users in rural areas have experienced increases in local service rates three times as large as rates for non-rural end users (even though rural end users are more likely to be on fixed incomes and to have lower average incomes than non-rural end-users)⁷. TSTCI believes that continued basic service rate increases would jeopardize the affordability of telecommunications service in rural America.

Nextel further suggests that rural ILECs’ support should be based on forward-looking costs, instead of the embedded cost methodology that is now utilized.⁸ Western Wireless Corporation also urges the adoption of a forward-looking cost methodology for determining support for all carriers and recommends that a task force be established to set guidelines for a universal service model that would be applicable to rural and non-rural carriers.⁹ TSTCI strongly disagrees with Nextel and Western Wireless. TSTCI advocates the use of an embedded cost methodology to determine universal service support for all ETCs operating in a rural telephone company’s study area. It has not been demonstrated that a forward-looking cost model can be designed to produce reasonable results for the rural areas.

⁷ *Trends in Telecommunications Cost Recovery: The Impact on Rural America* by NECA, October 2002 page 54.

⁸ Comments of Nextel Communications, Inc. and Nextel Partners, Inc., CC Docket No. 96-45, May 5, 2003, page ii.

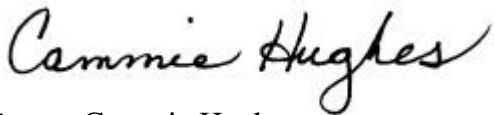
⁹ Comments of Western Wireless Corporation, May 5, 2003, CC Docket No. 96-45, pages 15 and 17.

As stated by OPASTCO, the costs of a rural ILEC's or "...competitor's actual network, constructed over time, are likely to diverge from a model that calculates the hypothetical costs of building a super-efficient network from scratch, using the most up-to-the minute technology."¹⁰ In 2000, the Rural Task Force recognized that utilization of the FCC's Synthesis Cost Model used for non-rural carriers was not appropriate for carriers serving predominantly high-cost rural areas and, as a result, the Commission determined that a modified embedded cost mechanism should be used to calculate a rural ILEC's high-cost support for at least five years. TSTCI reiterates its belief that an embedded cost methodology should continue to be used to determine universal service high-cost support for rural carriers. TSTCI urges the Joint Board to recommend that the embedded cost method be continued after July 1, 2006, the end of the five year period in the Commission's Rural Task Force Order.

In summary, TSTCI urges the Joint Board to reject Sprint Corporation's proposal that the Commission adopt a minimum price for local service as a condition of receiving federal universal support, and leave the determination of reasonably comparable rates between rural and urban areas to the state commissions. Further, TSTCI recommends that the Joint Board encourage the Commission to continue to utilize the embedded cost methodology for determining high-cost universal service support for rural ILECs. Also, to be competitively neutral, TSTCI recommends that the same embedded cost methodology for determining USF support used by rural ILECs be used by all CETCs operating in a rural ILEC's study area.

Respectfully submitted,

Texas Statewide Telephone Cooperative, Inc.

A handwritten signature in black ink that reads "Cammie Hughes". The signature is written in a cursive, flowing style.

By: Cammie Hughes
Director – Member Services

¹⁰ Comments of Organization for the Promotion and Advancement of Small Telecommunications Companies, May 5, 2003, CC Docket 96-45, page 18.

TEXAS STATEWIDE TELEPHONE COOPERATIVE, INC.

Brazos Telecommunications, Inc.
Brazos Telephone Coop., Inc.
Cameron Telephone Company
Cap Rock Telephone Coop., Inc.
Central Texas Telephone Coop., Inc.
Coleman County Telephone Coop., Inc.
Colorado Valley Telephone Coop., Inc.
Comanche County Telephone Company, Inc.
Community Telephone Company, Inc.
Cumby Telephone Coop., Inc.
Dell Telephone Coop., Inc.
E.N.M.R. Plateau Communications, Inc.
Eastex Telephone Coop., Inc.
Electra Telephone Company
Etex Telephone Coop., Inc.
Five Area Telephone Coop., Inc.
Ganado Telephone Company, Inc.
La Ward Telephone Exchange, Inc.
Lake Livingston Telephone Company
Lipan Telephone Company
Livingston Telephone Company
Mid-Plains Rural Telephone Coop., Inc.
Nortex Communications, Inc.
North Texas Telephone Company
Panhandle Telephone Coop., Inc.
Peoples Telephone Coop., Inc.
Riviera Telephone Company, Inc.
Santa Rosa Telephone Coop., Inc.
South Plains Telephone Coop., Inc.
Tatum Telephone Company
Taylor Telephone Coop., Inc.
Wes-Tex Telephone Coop., Inc.
West Plains Telecommunications, Inc.
West Texas Rural Tel. Coop., Inc.
XIT Rural Telephone Coop., Inc.